

**Moore & Van Allen**

August 13, 2008

**VIA E-FILING**

Mr. Charles Terreni  
Chief Clerk Administrator  
Public Service Commission of South Carolina  
101 Executive Center Drive  
Columbia, South Carolina 29210

**James H. Jeffries IV**  
Attorney at Law

T 704 331 1079  
F 704 339 5879  
jimjeffries@mvalaw.com

Moore & Van Allen PLLC

Suite 4700  
100 North Tryon Street  
Charlotte, NC 28202-4003

**Re: Docket No. 2008-4-G Annual Review of the Purchased Gas Adjustment and Gas Purchasing Policies of Piedmont Natural Gas Company, Incorporated**

Dear Mr. Terreni:

Attached please find the *Joint Proposed Order Ruling on Purchased Gas Adjustment and Gas Purchasing Policies* in the above referenced docket. The parties of record have jointly drafted and consent to this Proposed Order.

By copy of this letter we are serving all parties of record. If you have any questions about this filing you may reach me at the number shown above.

Sincerely,

s/ James H. Jeffries IV  
James H. Jeffries IV

Enclosure

c: Mr. Jeffrey Nelson, ORS (5 copies)  
Ms. Jane Lewis-Raymond  
Mr. David Carpenter  
Mr. Jeremy Hodges

Research Triangle, NC  
Charleston, SC

**BEFORE**  
**THE PUBLIC SERVICE COMMISSION OF**  
**SOUTH CAROLINA**  
**DOCKET NO. 2008-4-G**

IN RE:

Annual Review of Purchased Gas	)	<b>JOINT PROPOSED</b>
Adjustment and Gas Purchasing	)	<b>ORDER RULING ON PURCHASED</b>
Policies of Piedmont Natural Gas	)	<b>GAS ADJUSTMENT AND GAS</b>
Company, Incorporated	)	<b>PURCHASING POLICIES</b>

The above-captioned matter is before the Public Service Commission of South Carolina (“Commission”) concerning its annual review<sup>1</sup> of the Purchased Gas Adjustment (“PGA”) and gas purchasing policies of Piedmont Natural Gas Company, Inc. (“PNG”). The Office of Regulatory Staff (“ORS”) is a party of record in this proceeding under the provisions of S.C. Code Ann. § 58-4-10(B) (Supp. 2007). PNG and ORS (collectively the “Parties” or individually a “Party”) entered into a Settlement Agreement (“Settlement Agreement”) which was served on the Commission on July 15, 2008.

The Commission conducted a formal hearing in this matter on July 30, 2008, beginning at 10:30 a.m. in the hearing room of the Commission with the Honorable Elizabeth B. Fleming, Chairman, presiding. Jeffrey M. Nelson, Esquire appeared on behalf of ORS. James H. Jeffries, IV, Esquire and Jeremy Hodges, Esquire appeared on behalf of PNG.

At the hearing, the Commission accepted into the record the pre-filed direct testimony of PNG witness Keith P. Maust and the pre-filed direct testimony and exhibits of PNG witnesses Robert L. Thornton and William C. Williams, as well as the pre-filed direct testimony and exhibits of ORS witness Daniel F. Sullivan and the pre-filed direct testimony of Carey M. Flynt,

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<sup>1</sup> See Commission Order No. 88-294 dated April 6, 1988 (annual review).

along with the settlement testimony of Carey M. Flynt. The Commission also accepted into evidence the Settlement Agreement as Hearing Exhibit No. 1. Mr. Sullivan's exhibits were admitted into evidence as composite Hearing Exhibit No. 2. Mr. Thornton's exhibits were admitted into evidence as composite Hearing Exhibit No. 3. Mr. Williams' exhibits were entered into evidence as composite Hearing Exhibit No. 4.

PNG witness Maust testified as to PNG's gas purchasing policies and the components of the "best cost" gas purchasing policy. PNG did not implement any changes in its "best cost" gas purchasing policies or practices during the Review Period (April 1, 2007 to March 31, 2008) and PNG's hedging plan accomplished the goal of reducing gas cost volatility to South Carolina customers purchasing gas from PNG. PNG's South Carolina customers incurred a net economic cost of \$1,898,938 as a result of PNG's hedging plan during the Review Period. Furthermore, the "best cost" purchasing policy has been reviewed and found prudent on all occasions in South Carolina and the other state jurisdictions in which PNG operates.

PNG witness Thornton testified that PNG continued to evaluate gas costs recorded for the periods November 2006 through March 2008 after the conclusion of proceedings in Docket No. 2007-4-G to determine if any other adjustments to PNG's financial statements were necessary to properly state PNG's gas costs for that period. The evaluation resulted in slight adjustments to PNG's prior period gas costs and inventory balances and the adjustments are reflected in the beginning balance of those accounts for this Review Period. The adjustment to the deferred account was an increase of \$34,492 resulting in a revised undercollected beginning balance of \$1,694,901. The adjustment to the inventory balance was a decrease of \$310,863 resulting in a revised inventory beginning balance of \$83,263,963. PNG witness Thornton further testified that it was his understanding that both ORS and PNG agree with the revised undercollected

beginning balances, at April 1, 2007, in the Deferred Account No. 253.04 in the amount of \$1,694,901 and the revised inventory beginning balances of \$83,263,963.

PNG witness Williams testified that PNG serves approximately 132,000 customers in South Carolina and during the twelve month period ending March 31, 2008, Piedmont delivered approximately 22,520,000 dekatherms of natural gas to its South Carolina customers. PNG has experienced a reduction in weather normalized usage per customer which may be due to the efficiency of new appliances used by customers as well as increased price awareness and conservation efforts on the part of customers. PNG and the natural gas industry have not seen evidence that conservation/reduced usage occurs during design day conditions. PNG has also announced its intention to build a 1.25 Bcf LNG facility which will be available to meet PNG's peaking needs beginning in the 2012/2013 winter heating season.

ORS witness Sullivan testified that ORS had performed an examination of deferred account #253.04 for the Review Period. It is the opinion of ORS that account #253.04 is accurately stated and that the balance of \$8,936,406 fairly represents PNG's under-collection balance as of March 31, 2008.

ORS witness Flynt testified that PNG had adequate firm supplies to meet its firm customer requirements; is continuing its attempts to get the best terms available in its negotiations with suppliers; has used the spot market to prudently purchase supplies at prices competitive with industrial alternate fuels, as well as reducing costs to high priority customers; managed its hedging program in a reasonable and prudent manner during the Review Period; and is prepared to meet forecasted future demand requirements. In addition, ORS does not recommend any change to the benchmark cost of gas at this time.

In the settlement testimony, ORS witness Flynt testified that ORS has determined that the terms of the Settlement Agreement serve the public interest and the Settlement Agreement is offered by all parties as a fair, reasonable and full resolution of all issues in this proceeding. The Settlement Agreement balances the concerns of the using public and preserves the financial integrity of PNG. ORS believes the Settlement Agreement does not inhibit economic development and ORS recommends approval of the Settlement Agreement.

The July 15, 2008 Settlement Agreement reflected the Parties agreement that: (i) PNG's gas purchasing policies and practices during the Review Period were reasonable and prudent; (ii) PNG properly adhered to the gas cost recovery provisions of its gas tariff and relevant Commission orders during the Review Period; (iii) PNG managed its hedging program during the Review Period in a reasonable and prudent manner consistent with Commission orders; and (iv) the end-of-period balances for PNG's hedging and deferred gas costs accounts are those reflected in the testimony of ORS witness Daniel F. Sullivan.

NOW, THEREFORE, based upon the foregoing, IT IS HEREBY DECLARED AND ORDERED THAT:

1. The pre-filed direct testimony of PNG witness Keith P. Maust and the pre-filed direct testimony and exhibits of PNG witnesses Robert L. Thornton and William C. Williams are accepted into the record without objection.

2. The pre-filed direct testimony and exhibits of ORS witnesses Daniel F. Sullivan and the pre-filed direct testimony and settlement testimony of Cary M. Flynt are accepted into the record without objection.

3. The Settlement Agreement is accepted into the record and incorporated into and part of this Order by reference and, based upon the testimony and exhibits presented at the

Hearing of this matter, is found to be in the public interest and constitutes a reasonable resolution of this proceeding.

4. PNG's gas purchasing policies and practices during the Review Period were reasonable and prudent.

5. PNG properly adhered to the gas cost recovery provisions of its gas tariff and relevant Commission orders during the Review Period.

6. PNG managed its hedging program during the Review Period in a reasonable and prudent manner consistent with Commission orders.

7. The end-of-period balances for PNG's hedging and deferred gas cost accounts are those reflected in the testimony of ORS witness Daniel F. Sullivan.

8. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

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Elizabeth B. Fleming, Chairman

ATTEST:

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John E. Howard, Vice-Chairman